

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary_st@leg.wa.gov

Gain-Sharing Subgroup

September 27, 2005

Immediately Following Executive Committee Meeting

House Hearing Room C
Olympia

AGENDA

- (1) **Approval of Minutes**
- (2) **Attorney General's Opinion - Update**
- (3) **Gain-sharing Costs for Plan 3 New Hires**
- (4) **Rule of 90 with Age 60 Minimum**
- (5) **Discussion**
 - Identify Problem Areas with HB 1324
 - Structure of HB 1324
- (6) **Stakeholder Input**

Subgroup Membership: (*voting members*) Representative Fromhold (chair), Senator Fraser, Senator Mulliken, Representative Crouse, Ms. Banks, Mr. Goeke, Ms. Matheson, Mr. Thompson; (*non-voting members*) Sophia Byrd, Jim Justin, Ken Kanikeberg, John Kvamme, Christopher Liu, Lynn Maier, Leslie Main, Ellie Menzies, Randy Parr, Wendy Rader-Konofalski, Cassandra de la Rosa.

Stakeholder groups are encouraged to appoint an individual representative from their organization as a non-voting member if interested.

Persons with disabilities needing auxiliary aids or services for purposes of attending or participating in Select Committee on Pension Policy meetings should call (360) 753-9144. TDD 1-800-635-9993

***Elaine M. Banks**
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

Representative Steve Conway

Representative Larry Crouse

***Senator Karen Fraser,**
Vice Chair

***Representative Bill Fromhold,**
Chair

***Leland A. Goeke**
TRS and SERS Employers

***Robert Keller**
PERS Actives

***Sandra J. Matheson,** Director
Department of Retirement Systems

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Joyce Mulliken

Glenn Olson
PERS Employers

Senator Craig Pridemore

Diane Rae
TRS Actives

J. Pat Thompson
PERS Actives

David Westberg
SERS Actives

*** Executive Committee**

(360) 786-6140
Fax: (360) 586-8135
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GAIN-SHARING SUBGROUP DRAFT MINUTES

August 23, 2005

The Gain-Sharing Subgroup met in House Hearing Room C, Olympia, Washington on August 23, 2005.

Voting Members:

Representative Fromhold, Chair	Elaine Banks
Senator Fraser	Leland Goeke
Representative Crouse	J. Pat Thompson
Sandra Matheson	

Other SCPP member attending:

Lois Clement

Non-Voting Members:

Jim Justin	Lynn Maier
Ken Kanikeberg	Leslie Main
John Kvamme	Randy Parr
	Cassandra de la Rosa

Representative Fromhold, Chair, called the meeting to order at 3:05 PM.

- (1) **Update on AGO Opinion**
Bob Baker, Senior Research Analyst, reviewed the letter received from the Attorney General's office. Discussion followed.
- (2) **Policy Analysis of Options - Preview**
Bob Baker, Senior Research Analyst, reviewed the "Policy Analysis of Options - Preview" report. Discussion followed.
- (3) **Full Rule of 90**
Matt Smith, State Actuary, reviewed the "Rule of 90 for Unreduced Retirement" hand-out. Discussion followed.

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(4) Fiscal Analysis of HB 1324

Matt Smith, State Actuary, reviewed the "Fiscal Analysis of HB 1324" hand-outs. Discussion followed.

(5) Trade-off Proposals/Alternative Options

Bob Baker, Senior Research analyst, reviewed the "Trade-off Proposals/Alternative options" handout. Discussion followed.

The following person testified:

Robert Rhule, WSSRA Committee Chair

The meeting adjourned at 4:47 PM.

Select Committee on Pension Policy

Gain-Sharing Subgroup

Gain Sharing Costs for Plan 3

(September 15, 2005)

Estimated Fiscal Impact

Costs (in Millions):	Future Members Only				Current and Future Members			
	PERS	TRS	SERS	Total	PERS	TRS	SERS	Total
2006-2007								
State:								
General Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Non-General Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total State	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Local Government	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Employer	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2007-2009								
State:								
General Fund	\$2.9	\$14.3	\$10.1	\$27.3	\$8.2	\$71.4	\$28.0	\$107.6
Non-General Fund	\$5.7	\$0.0	\$0.0	\$5.7	\$16.0	\$0.0	\$0.0	\$16.0
Total State	\$8.6	\$14.3	\$10.1	\$33.0	\$24.2	\$71.4	\$28.0	\$123.6
Local Government	\$8.0	\$7.1	\$15.2	\$30.3	\$22.0	\$35.6	\$42.1	\$99.7
Total Employer	\$16.6	\$21.4	\$25.3	\$63.3	\$46.2	\$107.0	\$70.1	\$223.3
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2006-2031								
State:								
General Fund	\$187.1	\$996.6	\$635.0	\$1,818.7	\$227.7	\$1,518.2	\$757.6	\$2,503.5
Non-General Fund	\$364.3	\$0.0	\$0.0	\$364.3	\$443.1	\$0.0	\$0.0	\$443.1
Total State	\$551.4	\$996.6	\$635.0	\$2,183.0	\$670.8	\$1,518.2	\$757.6	\$2,946.6
Local Government	\$500.6	\$497.6	\$953.1	\$1,951.3	\$609.0	\$758.1	\$1,136.9	\$2,504.0
Total Employer	\$1,052.0	\$1,494.2	\$1,588.1	\$4,134.3	\$1,279.8	\$2,276.3	\$1,894.5	\$5,450.6
Total Employee	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

Note: All data based on preliminary 2004 valuation.

Select Committee on Pension Policy

Gain-Sharing Subgroup

Rule of 90 with Age 60 Minimum

(September 15, 2005)

Rule of 90 for Unreduced Retirement - Effective in 2006

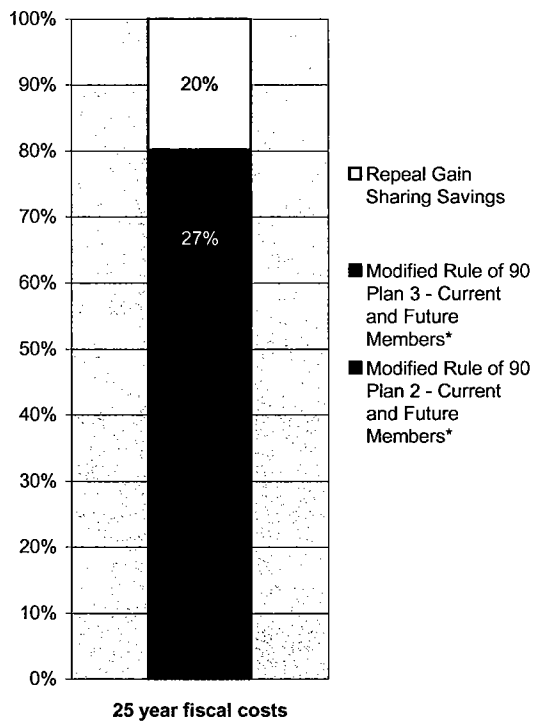
Estimated Fiscal Impact

Costs (in Millions):	Rule of 90 - Minimum Age 60 All Service				Rule of 90 - Minimum Age 60 Prospective Only			
	PERS	TRS	SERS	Total	PERS	TRS	SERS	Total
Increase in Contribution Rates								
Employee (Plan 2 Only)	0.50%	0.70%	0.47%		0.18%	0.34%	0.17%	
Employer	0.50%	0.70%	0.47%		0.18%	0.34%	0.17%	
2006-2007								
State:								
General Fund	\$4.9	\$16.9	\$2.1	\$23.9	\$2.0	\$9.0	\$0.9	\$11.9
Non-General Fund	<u>\$9.6</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$9.6</u>	<u>\$4.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$4.0</u>
Total State	\$14.5	\$16.9	\$2.1	\$33.5	\$6.0	\$9.0	\$0.9	\$15.9
Local Government	\$13.1	\$9.3	\$3.2	\$25.6	\$5.5	\$5.0	\$1.3	\$11.8
Total Employer	\$27.6	\$26.2	\$5.3	\$59.1	\$11.5	\$14.0	\$2.2	\$27.7
Total Employee	\$21.4	\$3.0	\$1.8	\$26.2	\$8.5	\$1.4	\$0.7	\$10.6
2007-2009								
State:								
General Fund	\$11.9	\$36.3	\$4.9	\$53.1	\$5.3	\$20.3	\$2.2	\$27.8
Non-General Fund	<u>\$23.3</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$23.3</u>	<u>\$10.4</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$10.4</u>
Total State	\$35.2	\$36.3	\$4.9	\$76.4	\$15.7	\$20.3	\$2.2	\$38.2
Local Government	\$32.0	\$18.2	\$7.4	\$57.6	\$14.2	\$10.1	\$3.3	\$27.6
Total Employer	\$67.2	\$54.5	\$12.3	\$134.0	\$29.9	\$30.4	\$5.5	\$65.8
Total Employee	\$52.1	\$5.9	\$4.1	\$62.1	\$21.6	\$2.8	\$1.4	\$25.8
2006-2031								
State:								
General Fund	\$181.8	\$619.6	\$72.4	\$873.8	\$130.3	\$474.8	\$54.1	\$659.2
Non-General Fund	<u>\$355.5</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$355.5</u>	<u>\$253.8</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$253.8</u>
Total State	\$537.3	\$619.6	\$72.4	\$1,229.3	\$384.1	\$474.8	\$54.1	\$913.0
Local Government	\$488.3	\$310.5	\$108.5	\$907.3	\$348.5	\$237.4	\$81.3	\$667.2
Total Employer	\$1,025.6	\$930.1	\$180.9	\$2,136.6	\$732.6	\$712.2	\$135.4	\$1,580.2
Total Employee	\$679.3	\$39.9	\$28.1	\$747.3	\$423.5	\$19.2	\$10.3	\$453.0

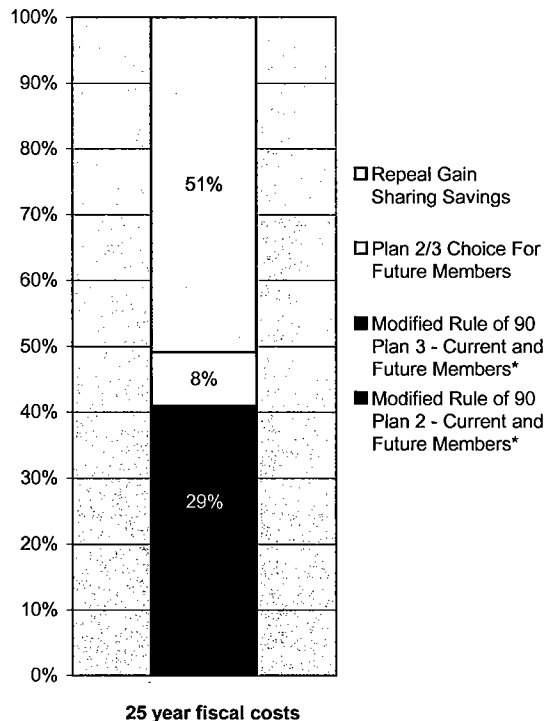
Note: All data based on preliminary 2004 valuation.

Select Committee on Pension Policy
Gain-Sharing Subgroup
Rule of 90 with Age 60 Minimum

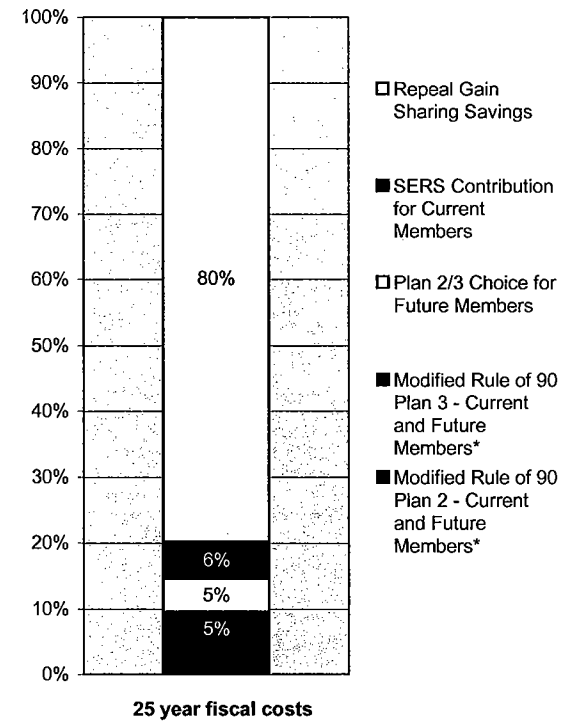
**PERS 2/3 Gain Sharing
Current and Future Members**



**TRS 2/3 Gain Sharing
Current and Future Members**



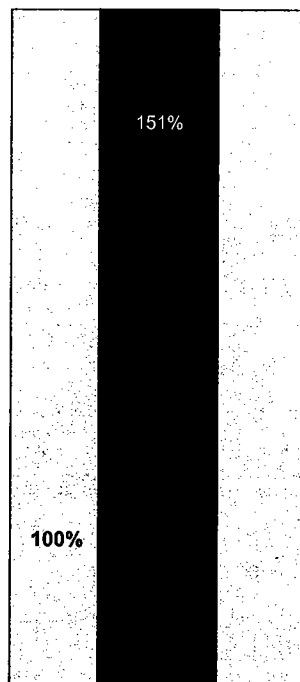
**SERS 2/3 Gain Sharing
Current and Future Members**



*Rule of 90 for all service, minimum age 60

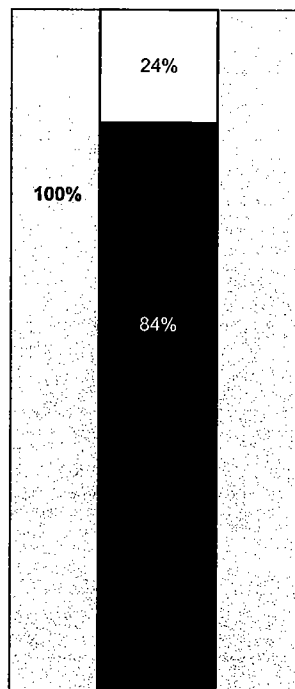
Select Committee on Pension Policy
Gain-Sharing Subgroup
Rule of 90 with Age 60 Minimum

**PERS 2/3 Gain Sharing
Current Members Only**



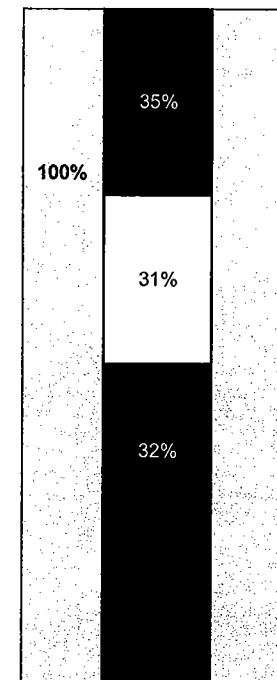
25 year fiscal costs

**TRS 2/3 Gain Sharing
Current Members Only**



25 year fiscal costs

**SERS 2/3 Gain Sharing
Current Members Only**



25 year fiscal costs

- Modified Rule of 90 Plan 3 - Current and Future Members*
- Modified Rule of 90 Plan 2 - Current and Future Members*

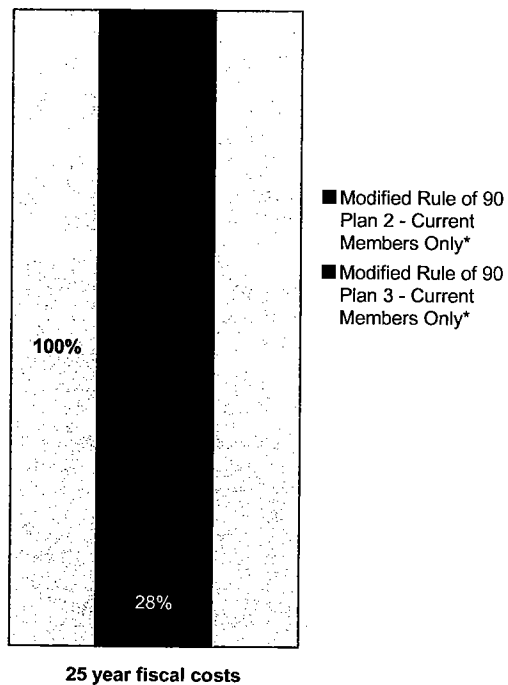
- Plan 2/3 Choice for Future Members
- Modified Rule of 90 Plan 3 - Current and Future Members*
- Modified Rule of 90 Plan 2 - Current and Future Members*

- SERS Contribution for Current Members
- Plan 2/3 Choice for Future Members
- Modified Rule of 90 Plan 3 - Current and Future Members*
- Modified Rule of 90 Plan 2 - Current and Future Members*

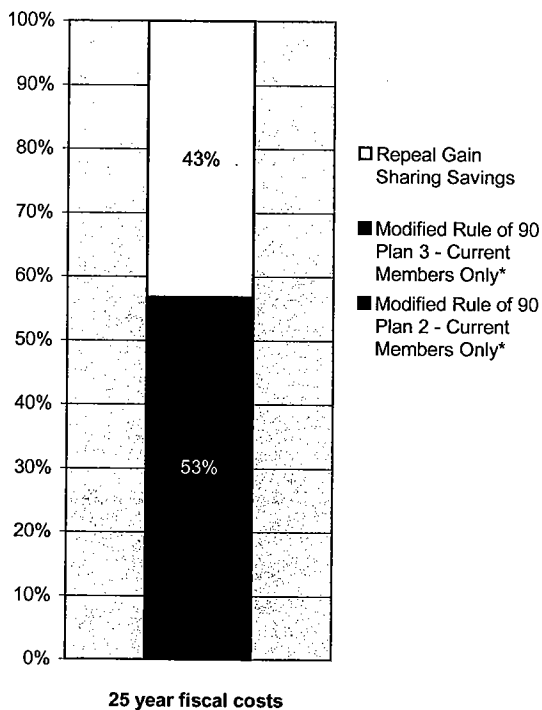
*Rule of 90 for all service, minimum age 60

Select Committee on Pension Policy
Gain-Sharing Subgroup
Rule of 90 with Age 60 Minimum

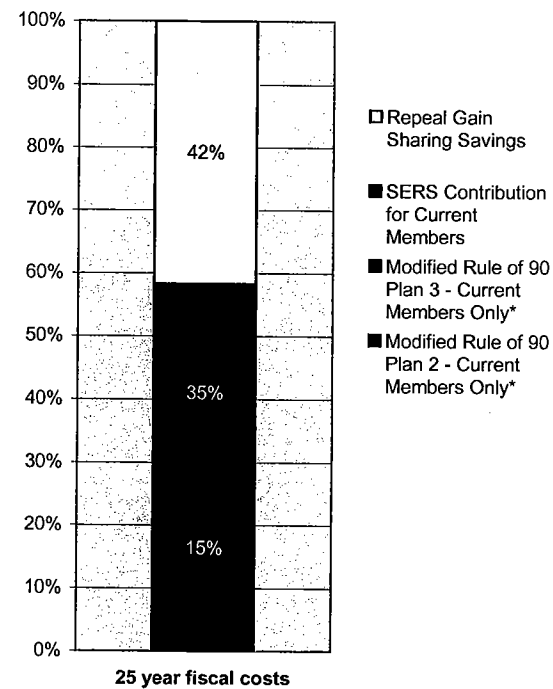
**PERS 2/3 Gain Sharing
Current Members Only**



**TRS 2/3 Gain Sharing
Current Members Only**



**SERS 2/3 Gain Sharing
Current Members Only**



*Rule of 90 for all service, minimum age 60

Select Committee on Pension Policy

Gain Sharing Subgroup

HB 1324 Sectional

(September 13, 2005)

Summary of Bill

Repeals Plan 1 gain-sharing in the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and replaces it with four contractually-guaranteed benefit increases:

- A 20-cent increase in the Annual Increase (sections 22 and 25),
- An extension of eligibility for the \$1,000 minimum benefit to members who have 20 years of service and have been retired for 25 years (sections 23 and 28),
- An annual increase of the \$1,000 minimum benefit by 3 percent per year (sections 23 and 28), and
- An extension of the Annual Increase to all members retired for one year in the year that they turn 66 (sections 24 and 27).

Modifies Plan 3 gain-sharing:

- Removes future PERS and TRS Plan 3 gain-sharing distributions (section 10),
- Replaces the SERS Plan 3 gain-sharing distribution formula with an annual distribution to SERS Plan 3 member accounts of an initial \$10 per year of service that increases 3 percent per year (section 10),
- Creates a prospective modified "Rule of 90" retirement formula that permits PERS, TRS, and the School Employees' Retirement System (SERS) Plan 2 and 3 members with a combination of age and years of service of at least 90 to receive an unreduced retirement allowance beginning at age 60 (sections 1-6).

- Opens TRS and SERS Plan 2 as an option for new members, and repeals the statutes providing an annual opportunity to change employee contribution rates in TRS, PERS, and SERS Plan 3 (sections 7,8, and 14).

Establishes annual basic contribution rates in PERS, TRS, and SERS for the next four fiscal years, in place of biennial rates (sections 17 and 20).

Establishes minimum employer and state contribution rates for PERS, SERS, and TRS beginning in 2009 (sections 18 and 21).

HB 1324 is 52 pages long and contains 32 sections. The following is a brief description of the individual bill sections.

Section 1: Amends PERS 2 retirement eligibility section, establishing the modified rule of 90 statutory provisions.

Section 2: Amends PERS 3 retirement eligibility section, establishing the modified rule of 90 statutory provisions.

Section 3: Amends TRS 2 retirement eligibility section, establishing the modified rule of 90 statutory provisions.

Section 4: Amends TRS 3 retirement eligibility section, establishing the modified rule of 90 statutory provisions.

Section 5: Amends SERS 2 retirement eligibility section, establishing the modified rule of 90 statutory provisions.

Section 6: Amends SERS 3 retirement eligibility section, establishing the modified rule of 90 statutory provisions.

Section 7: Amends TRS 3 membership section, establishing the Plan 2/Plan 3 choice statutory provisions.

Section 8: Amends SERS 3 membership section, establishing the Plan 2/Plan 3 choice statutory provisions.

Section 9: Amends the definitions section in the Plan 3 gain-sharing chapter to clarify the definition of "Terminated Vested Member" and strikes the PERS and TRS definitions as they are no longer relevant.

Section 10: Amends the eligibility section of the Plan 3 gain-sharing chapter to limit the \$10 trade-off distribution to those in SERS membership on the effective date of the act and eliminates PERS and TRS Plan 3 gain-sharing.

Section 11: Decodifies Plan 3 gain-sharing section granting retroactive gain-sharing to SERS 3 members who transferred during the transfer window.

Section 12: Decodifies Plan 3 gain-sharing section granting retroactive gain-sharing to PERS 3 members who transferred during the transfer window.

Section 13: Amends the Plan 2 Contribution rates section (effective July 1, 2006), to clarify and remove gain-sharing references.

Section 14: Amends the contribution rate structure section of the Plan 3 Retirement System Contributions chapter by removing the annual option for members to change their contribution rate.

Section 15: New Section clarifying that the benefits established in the first 16 sections of the act are not contractual rights until the effective date of the act.

Section 16: New Section providing an effective date of July 1, 2007, for sections 1-14.

Section 17: New Section added to the funding chapter providing for a four-year phased-in contribution rate structure for PERS, SERS, and TRS.

Section 18: New Section added to the funding chapter providing for a minimum contribution rate structure in PERS, SERS, and TRS; and starting July 1, 2009, a minimum contribution rate floor with a target funded ratio of 125 percent to retire the unfunded actuarial accrued liability in PERS 1 and TRS 1.

Section 19: New Section decodifies unnecessary contribution rate section of the funding chapter.

Section 20: New Section provides for a July 1, 2005, effective date for section 17.

Section 21: New Section provides for a July 1, 2009, effective date for section 18.

Section 22: Amends the definition section of the TRS chapter to provide for a 20 cent increase in the "Annual Increase" amount for Plan 1.

Section 23: Amends the minimum benefits section for TRS 1 to provide a 3 percent annual increase in the \$1,000 alternative minimum and expands the coverage of the \$1,000 alternative minimum to include those with 20 years of service and retired 25 years.

Section 24: Amends the annual increase section for TRS 1 to allow those who have been retired at least one year by July 1, and who will reach age 66 within the same calendar year, to be eligible for the uniform increase.

Section 25: Amends the definition section of the PERS chapter (effective until July 1, 2006), to provide for a 20 cent increase in the "Annual Increase" amount for Plan 1.

Section 26: Amends the definition section of the PERS chapter (effective July 1, 2006), to provide for a 20 cent increase in the "Annual Increase" amount for plan 1.

Note: Sections 25 and 26 are both needed because of the implementation date of PSERS.

Section 27: Amends the annual increase section for PERS 1 to allow those who have been retired at least one year by July 1, and who will reach age 66 within the same calendar year, to be eligible for the uniform increase.

Section 28: Amends the minimum benefits section for PERS 1 to provide a 3 percent annual increase in the \$1,000 alternative minimum, and expands the coverage of the \$1,000 alternative minimum to include those with 20 years of service and retired 25 years.

Section 29: New Section repealing all sections in the Plan 1 gain-sharing chapter.

Section 30: New Section providing for an immediate effective date for sections 22-25 and sections 27-29.

Section 31: New Section providing for a July 1, 2006, expiration date for section 25.

Section 32: New Section providing for a July 1, 2006, effective date for section 26.

Tjersland, Ann

Give to Matt.

From: Cwoldies@aol.com
Sent: Monday, August 29, 2005 7:58 PM
To: Fromhold, Rep. Bill
Subject: (no subject)

Dear Representative Fromhold:

I appreciate your taking the time to read my email concerning the potential tradeoffs for gain sharing that the committee you chair is considering. I am a Washington State teacher with 26 years of service and an active member of TRS Plan 3. I have attended some of the subcommittee meetings and have spoken at two. I am writing to request that the committee consider a Full/True/Pure Rule of 90 as the fairest trade for the gain sharing benefit that Plan 3 teachers currently receive.

I am aware that the committee last year put forward the modified Rule of 90, HB1324, that did not consider a person's prior service years and also required that a person be age 60 before receiving the early retirement benefit. 1324 was not a fair trade off for gain sharing. Indeed, documentation provided by the State Actuary indicated that 1324 was an offer to trade off gain sharing for 39 cents on the dollar. Likely, even if 1324 had passed, litigation would have followed it as teachers realized what they had given up and what they got.

So I am urging you to support a Full Rule of 90. The savings to the state are considerable. The state would still be buying gain sharing for 69 cents on the dollar. Eliminating the Plan2/3 choice aspect would lower the cost still further, to 61cents. Allowing individuals to make a one time choice of either keeping gain sharing or moving to a true rule of 90 would likely eliminate potential member litigation.

I know your position is a difficult one. On one hand, you want to produce a bill that buys gain sharing for about 50 cents on the buck. Such a price savings will undoubtedly please the financial conservatives in the legislature. On the other hand, going too cheap will produce an unfair benefit trade off that could produce litigation. Please work for a true rule of 90. It's a fair compromise: an improved benefit for teachers and a substantial savings for the taxpayer. Win/Win.

Conrad Wold

8/30/2005